

COPY NO 39

OFFICE OF CURRENT INTELLIGENCE
DAILY DIGEST OF SIGNIFICANT TRAFFIC

Date: MAR 8 1951

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 3. Marginal letter indications are defined as follows:
 - "A" - items indicating Soviet-Communist intentions or capabilities
 - "B" - important regional developments not necessarily related to Soviet/Communist intentions or capabilities
 - "C" - other information indicating trends and potential developments

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SECTION 1 (SOVIET)

"A" USSR. USSR May Abandon Silence on Kashmir Debate in SC. The US delegation at the UN has been informed [REDACTED] that Soviet delegate Malik, in commenting on the Kashmir dispute, said the indicated solution would be independence. He disclosed that he intends to make this point in his SC statement, and might also suggest that if independence could not be arranged, that the two parties be left alone to work out a solution. (S New York, 1234, 6 Mar 51). COMMENT: Emb Moscow (S Moscow 1611, 5 Mar 51) in commenting on the silence of the USSR to date on the US-UK resolutions on Kashmir, pointed out that past behavior of the USSR was to limit press comment and take a back seat in SC proceedings on Kashmir, thus soft-pedaling the purely Indo-Pakistan character of the dispute and letting the onus fall on the US and UK for the almost inevitably unpopular character in one country or the other of a given territorial decision. While the Emb felt that the USSR would probably continue to take a back seat, it suggested that if a move were made at the SC, it would almost certainly take the form of a pro-GOI position. The stand for independence that Malik reportedly will take, would be displeasing to both India and Pakistan. However his additional suggestion that the two countries work out their own solution would come close to India's point of view. The advantages to the USSR arising from such an indefinite prolongation of Indian-Pakistan tension and possible US-UK disagreement connected therewith, include opportunities for increased Communist influence and penetration in Kashmir under the Abdullah regime. Though the USSR would undoubtedly prefer an independent Kashmir, under the weak leftist regime of Abdullah where the possibility of effecting a "popular" revolution might be present, it is more likely that at this time, they will stress the 2nd suggestion which would be favorable to India in providing opportunities for delaying a settlement.

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25X1X "A" Opinion Regarding Cessation of Malik-Dulles Japanese Peace Treaty Talks. [REDACTED] analyzing possible reasons for cessation Malik-Dulles talks concerning the Japanese peace treaty, places the question in the context of general Soviet desire for non-settlement of Far Eastern problems and makes the following more specific comments related to the treaty: (a) The USSR initially approved the informal conversations in order to gain information on US proposals and intentions regarding Japan and this objective has been accomplished. (b) The USSR is committed to the demilitarization of Japan and increasingly has intensified Soviet propaganda to this end. During and since the visit of Mr. Dulles to the Far East he referred to the establishment of US bases in Japan and Japanese agreement thereto. Subsequent consultations with Mr. Dulles by Malik might imply acquiescence to such arrangements, thereby reversing the position and propaganda of the USSR. [REDACTED]

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"B" USSR Links Austrian and Trieste Issues at CFM Deputies Meeting. At the Big Four Deputies meeting 7 March, the Soviet delegate proposed to include the subject of Austria on the agenda for a proposed Council of Foreign Ministers meeting provided the Western powers agreed to discuss the question of Trieste. (U NYT, 8 Mar 51). COMMENT: The Soviet Union has utilized the completely extraneous Trieste issue as one more stalling tactic in Austrian treaty negotiations, first linking the two in May 1950. Both the Yugoslav and Italian Governments prefer to avoid for the present an international discussion of the Trieste issue.

"B" Soviet Reaction to Swiss Attitude Regarding Exports of Strategic Materials. Emb Moscow states that the Swiss Minister was recently called to the Soviet Foreign Office and told that the USSR had noted and approved the Swiss attitude regarding increased control over exports of strategic materials. In the interview the Soviet official "significantly observed" that this problem had political aspects. The Emb characterizes this interview as an unobvious form of intimidation indicating the extent of Soviet concern with limitations or prospect of limitations on strategic materials. (S Moscow, 1620, 7 Mar 51). COMMENT: The high level conferences recently held by Swiss officials on future policy regarding export controls to the Soviet orbit may have prompted the interview. (See OCI Daily Summary, 7 Mar 51 for Swiss-Swedish consultations on this question.)

"A" Statements of Semenov Regarding Soviet Attitude Toward Germany. The following remarks are alleged to have been made in early Feb '51 [REDACTED] 25X1X
25X1X [REDACTED] by Semenov, Soviet Amb to East Germany. [REDACTED] 25X1X
Semenov expected and intended his conversation to be relayed to influential quarters in West Germany. Semenov stated that the USSR would agree to a Four Power Conference if it received assurance that all plans for West German rearmament had been dropped. The USSR will not tolerate West German rearmament because it views Germany as the only power capable of containing Soviet expansion. If the West undertakes to rearm West Germany, the USSR will attack prior to the formation of a West German military force. Semenov stated that the USSR would agree to complete German autonomy provided all occupation troops were withdrawn and would permit Germany to become a great power if it promised neutrality in an East-West conflict or signed a treaty of alliance with the USSR. He said that the USSR did not intend to turn Germany into a Satellite and was willing to insure German economic independence by boundary revisions at the expense of Poland. According to Semenov, the USSR would relinquish its demand for reparations following the withdrawal of the occupation forces and would maintain very close economic relations with Germany. Semenov proposed that, prior to the CFM, a formal meeting, including prominent West German neutrality advocates, be held in Berlin to discuss German unity. In his opinion the meeting should recommend: (1) immediate abolition of zonal boundaries; (2) formation of a provisional all-German Govt whose members would be nominated by the occupation powers; (3) elections under the supervision of the UN or neutral observers; and (4) opposition to German rearmament under foreign command and on behalf of foreign powers. Semenov then stated that the USSR would not oppose the formation of a national German army under German command. [REDACTED]

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"C" EASTERN EUROPE. ALBANIA. Ninth Plenum of Communist Party Central Committee. The ninth plenum of the Albanian Central Committee was held in Tirana from 19-23 Feb in a "spirit of criticism and self-criticism". The plenum analyzed the external and internal situation of Albania, the realization of the Two Year plan, and the internal Party situation. The members adopted a series of important decisions on the consolidation of the Party and its greater mobilization for fulfilling the State plan and defending peace. (R FBID, 6 Mar 51). COMMENT: The general directions for paying special attention to local Communist Party organizations, as laid down in the Cominform Journal of 15 Dec 1950, have provided the theme for recent Party propaganda. A Tirana radio broadcast of 17 Feb admonished party agitators for being "monotonous" and failing to express concrete arguments in their political and ideological work.

"C" FINLAND. Former Communist Minister of the Interior to Denounce Party. Yrjo Leino, former leading Finnish Communist and Minister of the Interior, 1945-1948, has been reported as thinking of making a public break with Communism. He has not been a member of the Party since the fall of 1948, but has held one of the Party's Diet seats. Leino plans to publish his memoirs sometime before 15 April. In them he will present his reasons for leaving the Party and much of his personal experiences in the Party and as Minister of the Interior. The time of publication of this book will be coordinated with the Social Democrats who expect to make political hay out of it in anticipation of the Parliamentary Elections this coming July. The US Emb Stockholm comments that an open break by Leino may jar many of the wavering elements in the Finnish Communist Party. (S Stockholm, D#782, 25 Jan 51; [REDACTED] COMMENT: News of Leino's planned break may have been the motivating factor for the reported reorganization in the Communist front party, the SKDL, a few weeks ago. Leino has been less obnoxious, as a Communist, to anti-Soviet elements in Finland, than most other Finnish Communists. His action may have a substantial effect upon the voting of SKDL members next July, causing many of them to vote for the Social Democrats.

"C" Sudden Friendliness of Soviet Diplomats Reported. Soviet representatives in Finland are reported to be acting in a more friendly manner towards the Finns, as well as Western diplomatic representatives, at various social and official occasions. Thus sudden change in attitude has not been reflected in official relations between Helsinki and Moscow, which are correct but hardly cordial. (U NYT, 8 Mar 51). COMMENT: No particular significance can be presently attached to the sudden change in the attitude of the Soviet representatives. In the past the same type of development has occurred without noteworthy results.

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"C" RUMANIA. Aid for Korea. [REDACTED] informed the US Legation that she and her colleagues are being required to contribute half of one month's pay in three monthly installments to the Rumanian fund for Korean relief. Similar reports have been received from other sources. Also in connection with Korean relief, the Legation has heard reports that Rumanian doctors have been asked to volunteer for service in Korea, but those who have done so report that they do not know whether their service is to be military or civilian. (C Bucharest 629, 7 Mar 51).

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"A" YUGOSLAVIA. Yugoslavs Urgently Request Additional \$20,000,000 to Avert Economic Crisis. Foreign Minister Kardelj has informed Amb Allen that Yugoslavia is in immediate need of \$30 million worth of raw materials to avert an imminent economic crisis. Yugoslavia is endeavoring to obtain 4,000,000 pounds sterling from the UK, and requests an additional \$20,000,000 from the US through MDAP funds. Kardelj claimed that without this assistance Yugoslav ability to resist aggression would be weakened. Yugoslav light industry, particularly textile mills and shoe factories, might have to begin closing in two weeks and the new price and incentive policy, recently instituted to encourage agricultural production, would be seriously affected. In response to Amb Allen's statement that it was not feasible for the US to continue to meet the recurring crisis in the Yugoslav economy through piecemeal requests, Kardelj replied that Yugoslavia hoped to find a basic solution through an agreed formula for substantive collaboration with EPU, and possibly OEEC in another year, but that the existing emergency could not be met by this means. Amb Allen feels that there is no alternative for the present but to continue to sustain the Yugoslav economy sufficiently to maintain its military posture. The eventual solution, however, must be direct cooperation of Yugoslavia in the Western economic and military organizations. (S Belgrade, 1230, 6 Mar 51).

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SECTION 2 (EASTERN)

"B" THAILAND. Cooperation with US again scored by Viet Minh. Continuing the month-old propaganda attack against Thailand's Phibun regime and American intervention there, a Viet Minh broadcast of 6 March advised listeners that they could "expect the situation (in Thailand) to change from one day to the next." The broadcast claimed that the Thai Communist was attempting to establish an anti-Phibun "democratic front", while former Premier Pridi, "who enjoys a high reputation throughout Thailand," was described as reportedly a member of the front. US Minister Heath in Saigon, comments that a propaganda effort is apparently under way designed to justify violent Communist action in Thailand and that Pridi has come to terms with the Thai Communist Party. (C Saigon 1560, 7 Mar 51). COMMENT: This Viet Minh propaganda is almost identical to recent Peiping attacks. Pridi's whereabouts and intentions remain a mystery, and from the above report it appears that even the Communists are not sure where he stands. Nevertheless, the Chinese-dominated Communists in Thailand, if so directed, are believed capable of seriously challenging the Thai Government's authority.

"A" PHILIPPINES. Mass Huk surrender. Manila press reports state that 228 Huks surrendered to President Quirino on 7 March in the biggest mass surrender reported to date. One paper states 15,000 rounds of ammunition were given up. According to these reports, President Quirino told the Huks they may return to their homes unless formal charges have been filed against them and assured those who might be convicted he would "either parole or pardon them". (U Manila 2687, 8 Mar 51). COMMENT: It is believed that the Philippine Government tends to exaggerate Huk surrenders in order to answer public criticism of its law enforcement efforts.

"B" AUSTRALIA. Japanese Treaty Proposals to Reflect Concern for Pacific Security. Embassy Canberra believes that contributions to the Japanese peace treaty proposed by the Australians will record the Government's diligence in seeking protection against Japanese resurgence but that final decision will depend upon completion of a mutually satisfactory Pacific security arrangement. (S Canberra 239, 6 Mar 51). COMMENT: This analysis is supported by previous indications of Australian policy.

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25X1X "C" CHINA. Whereabouts of MAO Tse-tung. [REDACTED] MAO Tse-tung flew to Moscow in January and was joined there in February by LIU Shao-ch'i. Prior to LIU's departure, he and CHU Teh reportedly discussed an alleged Soviet desire to replace MAO with LI Li-san. [REDACTED] MAO is still in Moscow and is believed to have lost his freedom of movement. [REDACTED]

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COMMENT: MAO's absence from public functions since 26 January has stimulated a flow of rumors as to his whereabouts and physical condition. MAO is fairly reliably reported to have a heart ailment and to be attended by Soviet physicians, and a Chinese cardiologist in Hong Kong was recently requested to dispatch to Peiping medicines for the heart disorder of an unspecified person; however, there is no reliable information on MAO's current state of health. Reports of MAO's recent journeys conflict as to date, means of transportation, destination, and purpose. Although LI Li-san has been widely rumored as the Kremlin's Chinese favorite, there is no evidence that MAO is out of favor or that the USSR is attempting to replace him with LI or with anyone else.

- "B" Chinese Nationalists facing financial crisis this year. The ECA office in Taipei states that the Chinese Nationalist government on Taiwan faces a financial crisis between May and September of this year because of the continuing government deficit and its diminishing gold and foreign exchange resources. The office states that it is possible to stave off economic deterioration only by substantially increasing US economic aid. Otherwise, the office foresees a flight from the Taiwan currency, precipitating a critical situation. (S TOECA 201, 5 March 51). COMMENT: This statement supports previous CIA intelligence estimates (see ORE 7-50) that the Nationalist government would face financial insolvency in 1951 unless it is sustained by increased U.S. economic aid.
- "C" JAPAN. Socialists Considering Non-Agression Pacts. Socialist Party Chairman Suzuki revealed today that his party is now studying the possibilities of a non-aggression pact between Japan and Soviet Russia, Red China and other Asiatic nations including Australia, New Zealand and the Philippines. He scotched ideas that Red China had aggressive designs against Japan. (R FBIS, 7 Mar 51). COMMENT: This type of statement is typical of the dominant leftist faction of the Socialist Party, which is determined to maintain the party's position of neutrality at all costs, despite converse public opinion trends.
- "C" KOREA. Farmland Redistribution Progressing although Slowly. An ECA report on the progress of the land redistribution program, whereby an estimated 1,200,000 tenant farmers will receive the lands of their absentee landlords, indicates that the program is proceeding although slowly in the face of an obvious lack of enthusiasm on the part of many officials, both national and provincial. Local officials with strong landlord sympathies have even thwarted implementation of the program in some individual counties. (C ECA TOECA 31, 1 Mar 51).

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SECTION 3 (WESTERN)

"B" GERMANY. Social Democrats Exploit Restiveness over Economic Deterioration. West Germany's leading opposition party, the Social Democrats (SPD), under Kurt Schumacher, has shifted its propaganda emphasis from remilitarization to the deteriorating economic situation. US officials in Bonn have noted increased public discontent over current economic problems, particularly the gradual rise in the cost of living. The Federal Republic has in the past supported Minister of Economics Ludwig Erhard, a pillar of the free economy school whose recent "rationing... only over my dead body" statement has been widely quoted. Adenauer and various members of the Cabinet, as well as leaders of the Government parties in the Bundestag, now favor imposition of greater controls. Meanwhile the SPD has continued to exploit popular discontent, especially with an eye to the forthcoming Lower Saxony elections. (C Bonn Unnumbered, 2 Mar 51; and Bonn 590, 6 Mar 51). COMMENT: Despite a reported Adenauer rebuke to Erhard at a recent Cabinet meeting, (OCI Daily, 13 Feb 51), it will nevertheless still be some time before Government leaders can reach agreement on the necessary controls. In the meantime, there is grave danger that the economy will continue further to deteriorate and thus augment public discontent.


"B" FRENCH MOROCCO. Situation Continues to Cause Anxiety. Near Eastern reaction to false press reports of clashes between French troops and Moroccan nationalists is of such serious concern to French officials that Resident General Juin has again gone to Paris for consultations with the Foreign Office. Meanwhile, the Moroccan press is intimating that the US upholds the French in opposing Arab League maneuvers on the Moroccan question, and that the British support the Arabs. (U New York Times, 8 Mar 51; S Rabat 126, 6 Mar 51). COMMENT: The sensational stories which have been appearing in the Arab press, particularly in Cairo, are believed to have been inspired by telegrams from Istiqlal's fiery leader in Tangier, El Fassi, whom the French have long wanted to silence. Tangier officials probably will now comply with French demands that Fassi be imprisoned or expelled in order that the explosive situation can be calmed as quickly as possible. Most nationalist leaders have been taken into custody, and have requested their followers to refrain from violence. French armed and security forces in Morocco will be able to control any untoward incident.

"C" UNITED KINGDOM. Stiffer Attitude towards Peiping Indicated. The Foreign Office has directed the new UK Charge in Peiping, Leo H. Lamb, to bring virorously to the attention of the Chinese Peoples Government the questions of delay in the issuance of exit permits and of detention of British nationals. A British official has indicated to US Embassy

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London that stronger representations in behalf of American interests might also be undertaken if the US so urged. (S London 4793, 6 Mar 51).
COMMENT: This new and more vigorous approach is motivated by two considerations: (1) the failure of past conciliatory methods to effect any betterment in UK-Chinese relations; and (2) a feeling that, while


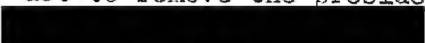


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"B" SWEDEN. Polish Economic Pressure on Sweden. Poland increased the price of coal to Sweden on 1 March to \$21.50 per ton, a figure which now exceeds US coal, on a CIF basis, by \$3. In a year, Polish coal has increased almost 100 per cent in price. Consequently, Poland is acquiring a growing credit balance with Sweden, and the Swedish delegate to the ECE Coal Committee fears that the Poles, who are pressing for payment in goods and not dollars or sterling, will demand increased shipments of Swedish ball bearings, iron ore, and pulp. (S Stockholm Weeka #9, 3 Mar 51 & U FBIS 5 Mar 51). COMMENT: The Swedish delegate may be expressing this view in order to obtain favorable consideration for Sweden's efforts to obtain coal elsewhere. But Sweden cannot expect to meet its coal requirements without imports from Poland, and the action of the Swedish delegate may be designed to justify exports of ball bearings, iron ore, etc. to Poland and the Soviet orbit.

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"C" PANAMA. Government Unstable. , in view of large-scale graft on the part of President Arnulfo Arias, Police-Chief Remón may act to remove the president if he feels that he has public support.  COMMENT: Arias-Remón relations, the key to Panamanian stability since the coup of November 1949, have deteriorated in recent months. Although Remón is likely to be guided in any situation only by a desire to retain his present status, rumors that Arias is attempting to oust him may have provided a compelling reason to upset the status quo. Written proof of the attempted graft, reportedly obtained by Remón on 5 March, could be used either to strengthen Remón's position as Police-Chief under Arias or to arouse public support for a Remón-led coup in favor of a more complaisant chief of state.

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OFFICE OF CURRENT INTELLIGENCE
DAILY SUMMARY OF SIGNIFICANT S/S CABLE TRAFFIC

8 March 1951

SECTION 1 (WESTERN)

- "B" FRANCE. Niggardly French Concessions Imperial Tariff Agreement with US. Unless the French representatives at the Torquay conference under the General Agreement on Trade and Tariffs (GATT) are empowered to offer much larger concessions, the US delegation fears that a US-French agreement may be impossible. US officials in Paris have already reminded the French of ex-Premier Plevin's assurances to President Truman that tariff reductions at Torquay would replace the present French protectionist policy, and the French Foreign Office has indicated that additional reduction offers are in prospect. (S S/S Torquay 493, 2 Mar 51 and Paris 5172, 5 Mar 51). COMMENT: The entire program for the economic integration of Western Europe is seriously hindered by the attitude towards trade liberalization of French officials at the working level, and no real concessions can be expected at Torquay without forceful intervention by French Government leaders. No further progress at Torquay is likely therefore as long as the current cabinet crisis lasts, and the French trend toward the Right in recent years, which many political observers consider an indication of a Rightist swing in the approaching elections, may encourage resistance at French Government policy levels to a more liberal tariff program, despite inflationary dangers.
- "B" French Seek to Delay Proposed Foreign Ministers' Meeting. The French delegation at the current Big Four deputies' discussions prefers that the proposed Foreign Ministers' meeting not be held until May. This may reflect a French feeling that, while the Four-Power meeting is pending, no major action by the USSR is likely and hence no further action by the West on Germany will be necessary. Any undue delay in holding the proposed meeting, if exploited by the Soviets, might inhibit the development of a German will to contribute to Western defense. (S S/S Paris 5148, 5 Mar 51). COMMENT: The French, although consistently believing that a Four-Power Meeting offers some possibility of deferring a further rise in East-West tension, are also eager - especially in this election year - to avoid implementation of German rearmament, which they have accepted reluctantly.

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